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TAGS: [EFIN](#) [ECON](#) [ETRD](#)  
SUBJECT: UNEMPLOYMENT IN AUSTRALIA RISES MODERATELY

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11. (U) Australia's unemployment rate has jumped to 5.8% in June 2009, the highest level in six years, but below the expectations of many economists. The Treasury forecast unemployment to peak at 8.5% by 2011 and the better-than-expected result may mean budget forecasts need to be revised. However, there are considerable uncertainties in the statistics as well as mixed economic signals that suggest the outlook remains unclear. END SUMMARY.

#### AUSTRALIA'S UNEMPLOYMENT RATE TRENDING UP

12. (U) The strength of the Australian labor market has surprised economists, with fewer job cuts so far than seen in previous downturns. According to Australian Bureau of Statistics (ABS) data released on July 9, the number of people in full-time jobs fell by 21,400 in June (down 0.1%) as total unemployment increased to 668,400. Overall, Australia's jobless rate has risen 1.9 percentage points in the past 15 months after falling to a 33-year low of 3.9% in February 2008. The number of full-time workers fell by 21,900 to 7.6 million, but part-time employment was virtually unchanged. As appears to be taking place in other developed economies, employers have been reducing their employees' hours rather than axing their jobs and the June participation rate (the proportion of working-age persons at work or actively seeking a job) was in line with expectations at 65.4%. This is unchanged since May and slightly down (to 65.3) on a seasonally adjusted basis. The ABS again warned of significant fluctuations in sampling errors and the reliability of seasonal adjustment techniques, noting that 'month-to-month movements of the seasonally adjusted estimates may not be reliable indicators of trend behavior'. ABS reported that the sample will be progressively enlarged by 24% to help overcome these problems.

#### REGIONAL AND INDUSTRIAL PATTERN DIFFERS

13. (U) Australia's jobless rate is highest in New South Wales (NSW) where unemployment reached 6.5% in June (from 6.4% in May). In Victoria the rate rose to 6.0% (from 5.9%). In Queensland it increased to 5.4% and in Western Australia was up to 5.1%. Tasmania bucked the trend with a surprising drop in its jobless rate to 4.7% from 5.6% the previous month however in trend terms - the more accurate measurement for small jurisdictions - it remained at 5.3%).

Across industries and states, the pattern of job cuts differs. BHP Billiton, the world's biggest miner, cut 3,400 workers after shuttering a nickel mine in January and reducing coking coal output. Qantas Airways will cut 1,750 jobs as demand for business and first-class travel declines. The four biggest banks are cutting jobs to rationalize their operations. Australia's biggest retailer, Woolworths, however, expects to add 7,000 workers in part because of the impact of the government's stimulus policy and rising consumer confidence.

#### SIGNS THAT THE WORST MAY BE OVER?

14. (SBU) Australia's economy has so far avoided the worst of the Global Economic Crisis and GDP rose 0.4% in the first quarter, making it one of the few major economies to expand. Some other economic news has also been positive, with strong recent data on economic news has also been positive, with strong recent data on consumer confidence; retail sales and housing finance all suggesting that the economy is performing better than expected. The Treasury has forecast unemployment to peak at 8.5% by 2011 and the better-than-expected economic news may mean that government budget forecasts will need to be revised upwards. Chief economist of the Commonwealth Bank, Michael Blythe, considers the Government's forecast for unemployment of 8.5% is too pessimistic. "We think it will peak at around 7 per cent by early 2010". Warren Hogan, head of Australian economics at ANZ told us he believes the Australian economy is performing "a lot better than you would expect it in a recession". The Treasury appears to be more cautious about the data. David Gruen, Executive Director for Macroeconomics at Treasury told econoff on June 25 that the Australian labor market is still diabolical but is not collapsing. He pointed out that unemployment is still rising but at a slower pace than originally expected and is trending exactly as it has in past recessions. The Australian dollar rose on the view that the data was less worse than expected, and was buying 78 US cents at 12:06pm AEST. However, job

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advertisements fell 6.7% in June and 51.4% from a year earlier - the largest annual decline since the ABS began tracking job ads in 1998 and a sign that unemployment may rise in coming months. Further, the construction industry shrank in June at a faster pace, exports fell 5% in May from April and home-building approvals declined 12.5%, the biggest drop since 2002.

#### IMPLICATIONS FOR MONETARY POLICY

15. (U) A number of analysts consider that a turning point has been reached for monetary policy. Citi senior economist Josh Williamson said the figures supported the view that the Reserve Bank of Australia is unlikely to cut interest rates further. "It's a fairly encouraging result to see that the unemployment rate remains low given where we are in the slowdown compared to previous contractions in economic activity." The RBA left the cash rate at a 49-year low of 3% following its board meeting on July 7.

16. (U) COMMENT: The Australian economy continues to buck expectations that it will fall further into the grip of the GEC, judging from the lower than expected unemployment rate. Unemployment will continue to rise, although to what extent is unclear. It is almost certain Australia will emerge from the economic downturn with lower unemployment than most other developed economies. END

COMMENT.

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